BEFORE

THE PUBLIC SERVICE COMMISSION

OF SOUTH CAROLINA

Docket No. 2019-290-WS

In Re:	)	
	)	
Application of Blue Granite Water Company for Approval to Adjust Rate Schedules and Increase Rates	)	Response Blue Granite Water Company to Petition for Reconsideration of the Office of Regulatory Staff
	)	

Pursuant to S.C. Code Ann. 103-826, and applicable law, Blue Granite Water Company ("Blue Granite" or the "Company") files this response to the Petition for Clarification and Rehearing/Reconsideration ("Petition for Reconsideration") filed by the S.C. Office of Regulatory Staff ("ORS") on April 29, 2020 in the above-referenced docket as related to certain rulings, findings, and conclusions contained in Order No. 2020-306 ("Order").

I. Response to ORS Petition for Reconsideration

In its Petition for Reconsideration, as related to the Purchased Water and Sewer expenses Adjustment 8, ORS contemplates replacing the Commission's erroneous and unsupported reallocation of purchased water and sewer expenses with its own erroneous and unsupported reallocation of such expenses. The Commission's directive on this issue erroneously "limits the recovery through Blue Granite's rates to only a portion of its current annual purchased water and sewer expenses . . . ." ORS Petition for Reconsideration at 4. However, ORS's proposed solution that would "amortize the total of the Purchased Water and Wastewater Treatment Deferral, as adjusted by ORS, and ORS's proposed Purchased Water and Sewer Expenses Going Forward adjustment over five years" is equally unsupported by the record evidence, would deny the

Company of its constitutional right to a reasonable opportunity to recover its prudently incurred costs, and would be arbitrary and capricious. Further, ORS's novel proposal was not proposed or supported by any party in this proceeding and therefore violates the Company's due process rights because the Company was not on notice as to this treatment and has had no opportunity to be heard or introduce evidence related to it. These costs are incurred on an ongoing basis, are accounted for in rates on an annual basis, and it would be unreasonable and indeed irrational for them to be "amortized." As ORS points out in its petition, the accounting treatment directed by the Commission's Order "would contribute to an ever-growing deferral balance even if rates charged by third-party water and sewer treatment providers remain unchanged," and—besides the unconstitutional effect on the Company—would result in a dramatic rate shock to customers once eventually recovered.

ORS's recommendation that the remaining four-fifths of the Purchased Water and Sewer expenses be removed from rate base further confuses this issue. As explained in testimony and in the Company's petition for reconsideration, the Company is entitled to carrying costs on prudently incurred expenses. The deferred recovery of expenses require upfront cash from the utility, which must be obtained from the utility's debt and equity investors. Those investors require interest, or a return, on the cash they have invested in the utility. These financing costs (the return on the deferred costs) are a real cost that the utility incurs, and to disallow recovery of these costs during the deferral period or the amortization period disallows the recovery of prudently incurred costs. Such a disallowance is confiscatory and, where it is imposed without any reasoning as in the Order, it is arbitrary, without a rational basis, and not supported by the record. However, the inclusion of expenses within rate base resolves this issue by providing the opportunity to earn a return on prudently incurred expenses.

ORS is also flawed in its interpretation of the Company's request for carrying costs. In particular, ORS's Petition for Reconsideration erroneously states that the Company "only requested carrying costs at its authorized cost of debt on any new deferrals for purchased water/sewer treatment expenses going forward, not on any part of the existing Purchased Water and Wastewater Treatment Deferral or the Purchased Water and Sewer Expenses Going Forward adjustment," citing page 21 of Mr. DeStefano's Rebuttal Testimony. Instead, the testimony actually stated that "the Company should be authorized to accrue carrying costs on its purchased water/sewer treatment deferrals **going forward until the time of recovery** . . . ." Tr. 764.21 (emphasis added); *see also* Tr. 755 ("The company believes it is entitled to and has requested carrying costs on purchased water and sewer treatment deferrals going forward until time of recovery . . . ."). ORS misinterprets and erroneously reads into the Company's testimony when it asserts that this position applies only to new deferrals. The Company is constitutionally entitled to and has requested carrying costs on all prudently incurred expenses not yet recovered, which include the unamortized portions of prior balances.

In its Petition for Reconsideration, ORS makes a deeply flawed analogy between purchased water and sewer treatment expenses and expenses for power, contract labor, and chemicals. While ORS may be correct that the Company is not permitted to recover carrying costs on power, contract labor, and chemicals, these expenses are embedded in and recovered through rates, and are therefore recovered in real-time from the Company's customers. For that reason, there is no identified and tracked variance beyond the base rate recovery level which necessitates accrual of carryings costs from the Company. On the other hand, when expenses such as purchased water and sewer treatment expenses are funded by the Company but deferred for later recovery from customers, the Company incurs carrying costs that must be recovered. ORS's analogy, therefore,

is a red herring and leads to a flawed understanding of why carrying costs are appropriate and necessary for purchased water and sewer treatment expenses.

ORS also erroneously asserts that there should be no recovery of carrying costs on the existing unamortized purchased water and sewer expense balances because "no such costs were authorized by the Commission when the deferral was established and approved in Blue Granite's 2015 rate case in Order No. 2015-876." ORS Petition for Reconsideration at 6. In each rate case before the Commission, new evidence is presented, previous positions are reevaluated, and the Commission makes new findings based upon the newly developed record. Under S.C. Code Ann. § 58-5-240, the Commission must "rule and issue its order" on the application and case presented by the utility, and under S.C. Code Ann. § 1-23-320—the Administrative Procedures Act—the Commission is required to afford all parties an opportunity to present and respond to evidence and argument, and must make its findings of facts based exclusively on the evidence in the record before it in that case. Indeed, there is no room in the applicable statutes for ORS's novel theory that, because the Commission ruled in a prior case on a particular issue, it is now precluded from coming to a different conclusion in this rate case based upon the new evidence in the new record.

Finally, ORS erroneously asserts that "no party requested carrying costs in this proceeding be awarded on the Purchased Water and Wastewater Treatment deferral balance." ORS Petition for Reconsideration at 6. To the contrary, as pointed out on the preceding page, "Witness DeStefano testified that, 'should the Commission not approve an annual pass-through mechanism as part of this proceeding, the Company should be authorized to accrue carrying costs . . . . '" *Id.* at 5 (quoting DeStefano Rebuttal at 21).

II. Conclusion

The Company respectfully requests that the Commission consider this response when reviewing and evaluating the arguments presented in ORS's Petition for Reconsideration. Further, as discussed in the Company's own petition for reconsideration, the Commission should reconsider Order No. 2020-306 to address and remedy the unlawful rulings provided therein.

Respectfully submitted,

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